

DECISION MEMORANDUM

TO: COMMISSIONER KEMPTON
COMMISSIONER SMITH
COMMISSIONER REDFORD
COMMISSION SECRETARY
COMMISSION STAFF
LEGAL

FROM: NEIL PRICE
DEPUTY ATTORNEY GENERAL

DATE: OCTOBER 26, 2009

SUBJECT: PACIFICORP'S APPLICATION FOR APPROVAL OF AN ACCOUNTING ORDER RECORDING 'COAL STRIPPING' COSTS AS A REGULATORY ASSET; CASE NO. PAC-E-09-08

On October 13, 2009, PacifiCorp dba Rocky Mountain Power ("Rocky Mountain" or "Company") filed an Application with the Idaho Public Utilities Commission ("Commission") for approval of an accounting order authorizing the Company to "record a regulatory asset associated with the costs of removal of overburden and waste materials at its affiliate coal mines" pursuant to Idaho Code § 61-524 and RP 52. Application at 1.

THE APPLICATION

Rocky Mountain operates numerous coal-fired power plants throughout the western United States. The Company owns several coal mines, including the Bridger, Deer Creek and Trapper Mines ("the Mines"), that supply the coal needed to operate these plants. Coal is extracted from the Mines using "various underground and surface mining techniques." Application at 2. Surface mining requires the removal of soil, rock or "overburden" on seams of coal which lie near the surface. *Id.* The Company refers to the costs of removing the "overburden and waste materials" as "stripping costs." *Id.*

Rocky Mountain cites to Financial Accounting Standards Board ("FASB") Emerging Issues Task Force standard 04-6 ("EITF 04-6") and states that "stripping costs incurred during production are considered a component of inventory when incurred, without consideration of future potential benefits." *Id.* In contrast, "the coal itself must be extracted from its original location in order to qualify as inventory." *Id.* According to Rocky Mountain, this disparate

accounting treatment leads to “an inherent mismatch of stripping costs with coal inventory balances” and ultimately lead to customers paying for “the costs of uncovering coal well before it is extracted from the mine” to be used as fuel for the coal-fired power plants. *Id.*

The Company states that 2010 is the first year it will have to “deal with significant stripping costs since the issuance of EITF 04-6.” *Id.* at 3. For example, as its Bridger Coal Mine transitions from a surface mine to a surface/underground mining complex, the Company believes that there will be an increasing time disparity between when stripping costs are incurred and when the coal is actually extracted. *Id.*

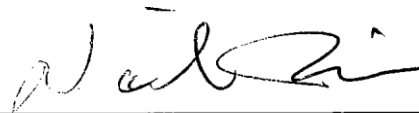
Rocky Mountain’s Application seeks to more closely “match the costs of coal stripping with the extraction of the coal.” *Id.* The Company requests that the “upfront coal stripping costs be recorded as a regulatory asset . . . much like a fuel inventory account and expensed as the coal is extracted. . . .” *Id.* at 4. The authorization for recording the coal stripping costs as a regulatory asset would “eliminate the expensing of coal stripping costs when incurred as required by EITF 04-6.” *Id.* Rocky Mountain proposes that these costs be recorded in Account 182.3, Other Regulatory Assets, and Account 501, Fuel Expense, based on “extracted” coal delivery. *Id.* The Company believes that customers will benefit from the modification of the customary treatment of stripping expenses under EITF 04-6 through increased “intergeneration equity among customers.” *Id.* at 3-4.

STAFF RECOMMENDATION

Staff recommends that the Company’s Application be processed through Modified Procedure with a 21-day comment period. IDAPA 31.01.01.201-.204.

COMMISSION DECISION

Does the Commission wish to process Rocky Mountain’s Application through Modified Procedure with a corresponding comment period of 21 days?



Neil Price
Deputy Attorney General